



Director of
Central
Intelligence

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National Intelligence Daily

Tuesday
27 October 1987

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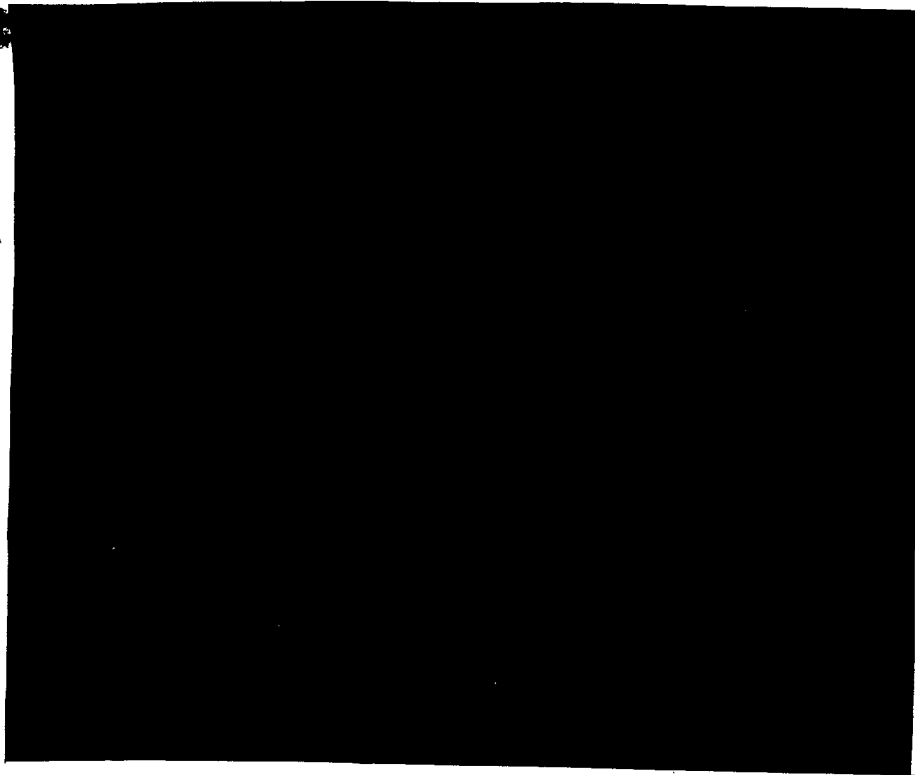
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PERSIAN GULF:

Situation Report



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**Gestures of Support
for Kuwait**

The Gulf Cooperation Council at its ministerial meeting in Riyadh on Saturday denounced Iran's attack on Kuwait and declared its support for Kuwait against further Iranian aggression. The Council added that it will take up this issue at the Arab League meeting next month.

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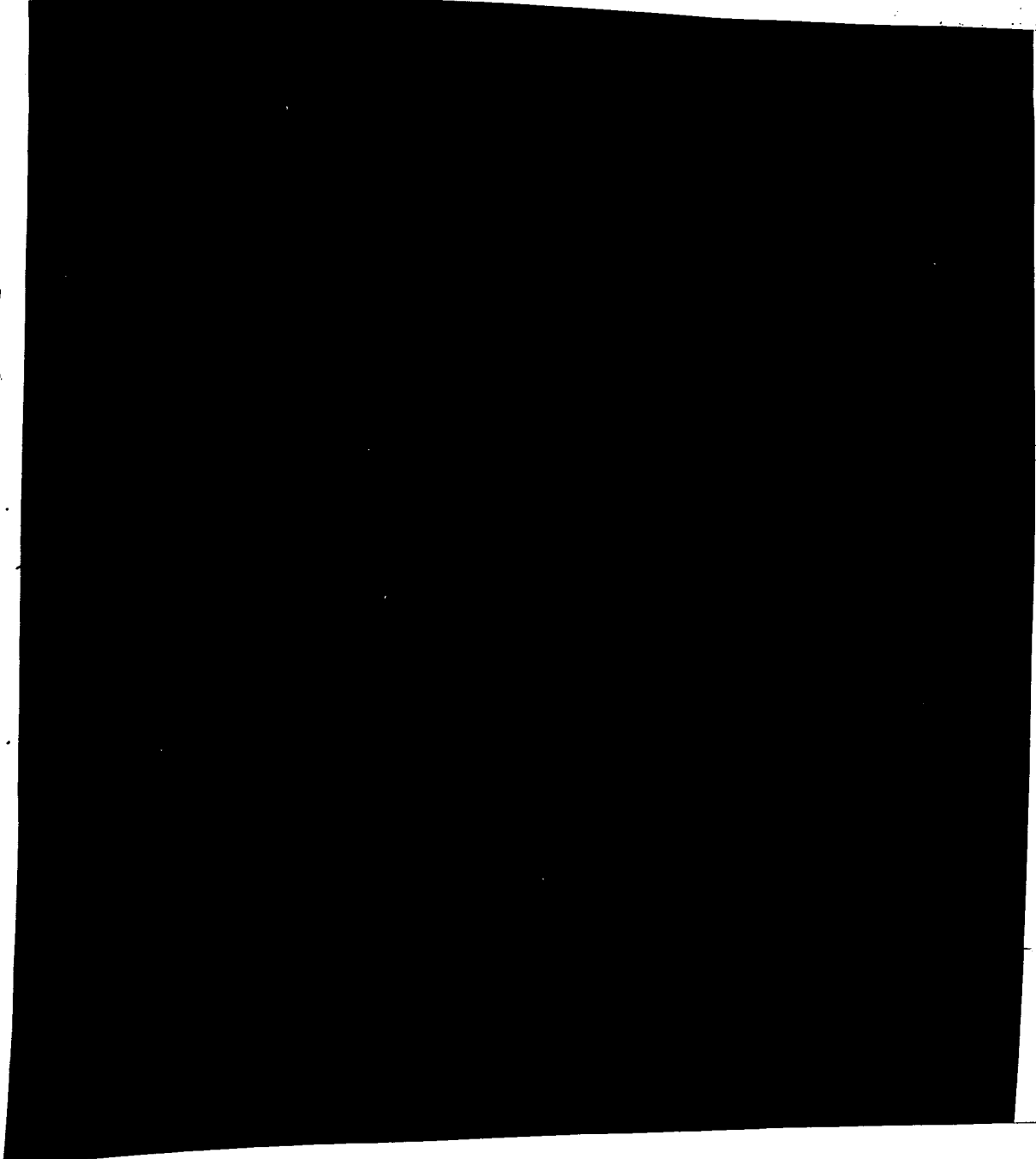
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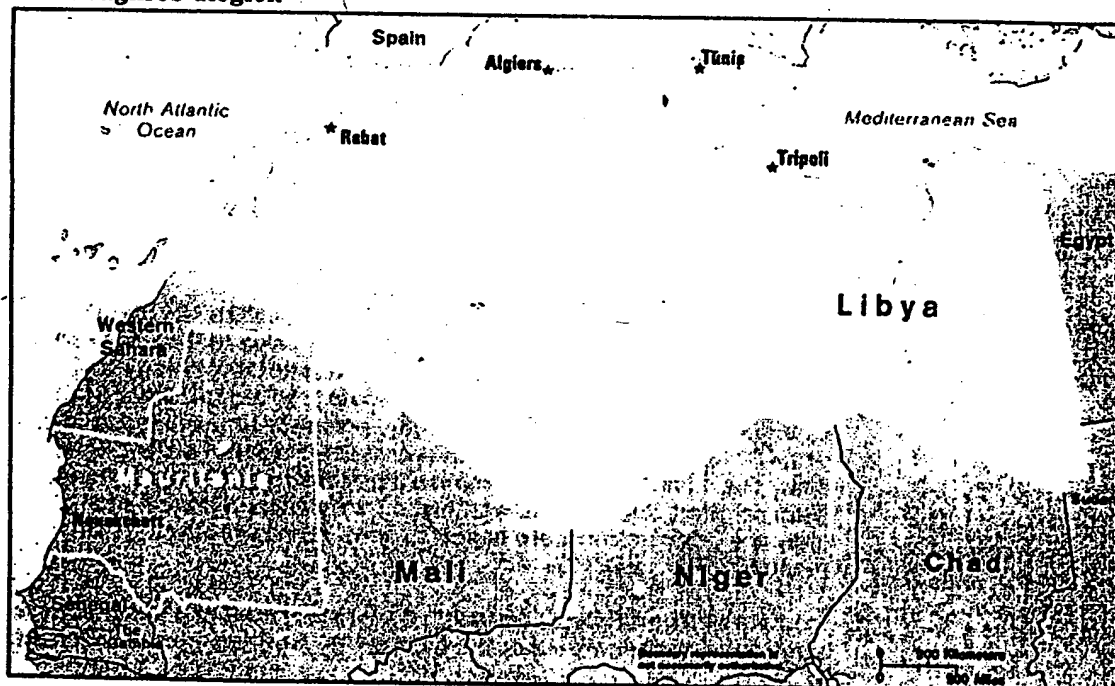
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The Maghreb Region



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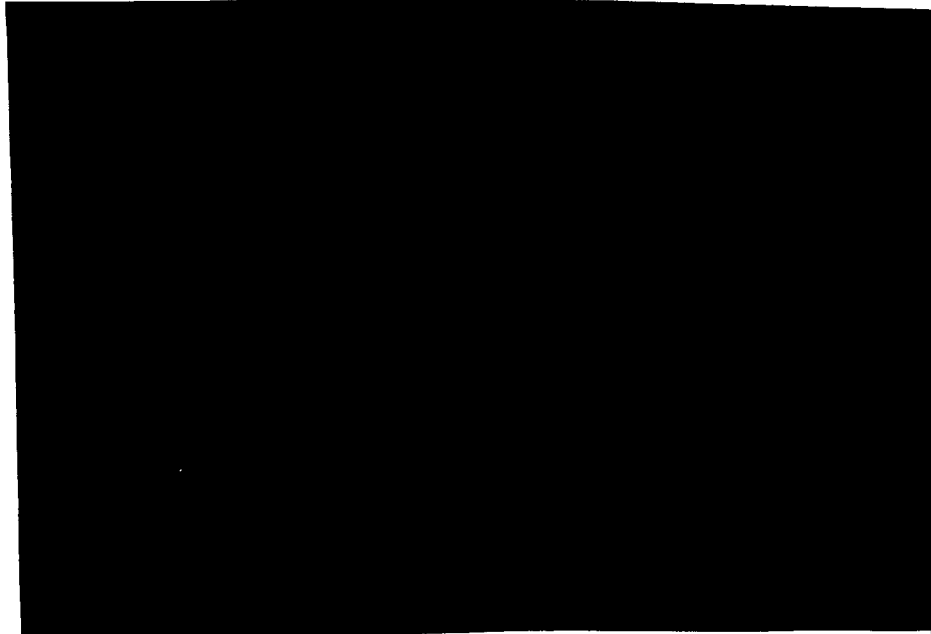
**ALGERIA-
TUNISIA-LIBYA:**

Closer Relations

Algerian and Tunisian leaders are responding cautiously to Libyan efforts to improve relations. ~~██████████~~ b (3)

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~~██████████~~ The Algerians may continue to dangle the prospect of union before the Libyan leader in order to obtain further subsidies in the hope of moderating Qadhafi's behavior. Their own interest is in isolating Morocco in the Maghreb so they can press King Hassan to meet some of their terms for settling the Western Sahara dispute.

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The Tunisians share the Algerian distrust of Qadhafi and fear him much more. Nonetheless, they might succumb to any Algerian pressure to restore full diplomatic relations with Tripoli and to include Libya in the tripartite pact. ~~██████████~~

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ECUADOR:

Military-Leftist Clash Likely

A one-day general strike tomorrow by the far-left Socialist Party and the United Workers Front may provoke a violent clash with the military and upset the fragile stability of President Febres-Cordero's government.

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Febres-Cordero's refusal to comply with the congressional censure has alienated moderate political elements. Previous general strikes attracted support almost exclusively from the far left.

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With the government and the legislature unwilling to make concessions, chances are greater than even that the strikers will become violent and that the military will respond in kind if the police cannot contain the situation. Although the military is probably making contingency plans to take power if order breaks down, it may try first just to contain striker violence in the hope that public support for a coup will build. Nevertheless, more confrontational tactics by the left could easily provoke military intervention.

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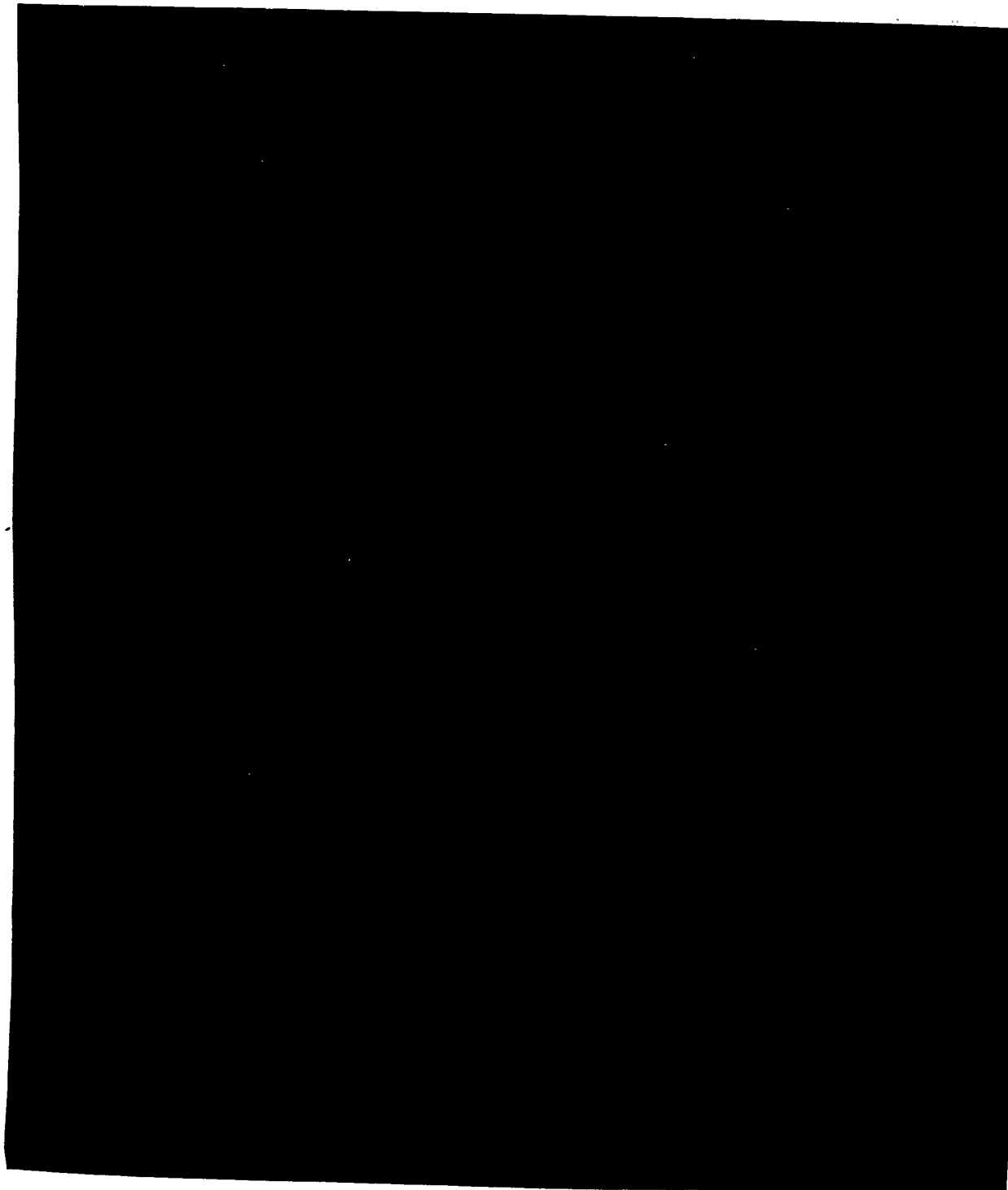
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PANAMA: Regime Trying To Oust Vice President

The Panamanian Government's campaign to force the resignation of outspoken Vice President Esquivel is intensifying following his recent meeting with the US Ambassador. The regime convened an emergency session of the security council yesterday to discuss the meeting with Esquivel, who returned from a trip to Nicaragua on Sunday, according to press reports. Esquivel heads a small party in the ruling coalition and has vowed to remain despite pressure from the regime, which closed his offices while he was away and fired senior officials who are members of his party. [REDACTED]

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Over the past two months, the proregime press has called repeatedly for the expulsion of the US Ambassador, but President Delvalle has assured the Embassy that no US personnel will be declared persona non grata. [REDACTED]

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The regime is angered by Esquivel's public criticism of its handling of the political crisis and its failure to enact democratic reforms and has maneuvered him out of any authority. Nevertheless, the government wants to maintain a facade of constitutionality and probably will try to force Esquivel to resign by ostracizing him. Panamanian strongman Noriega will be reluctant to risk a confrontation with the US by expelling the Ambassador but at the least will use the Ambassador's contact with Esquivel as a reason to intensify vitriolic attacks on Washington for interfering in Panamanian affairs. [REDACTED]

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PANAMA: Searching for Foreign Financing

Panama's attempts to attract foreign funds reflect deepening concern about its financial situation. [REDACTED]

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The regime may succeed in attracting some foreign funding, but donors are unlikely to make large commitments while political unrest prevails. As a result, the government faces a budget crisis that eventually could threaten its political control. [REDACTED]

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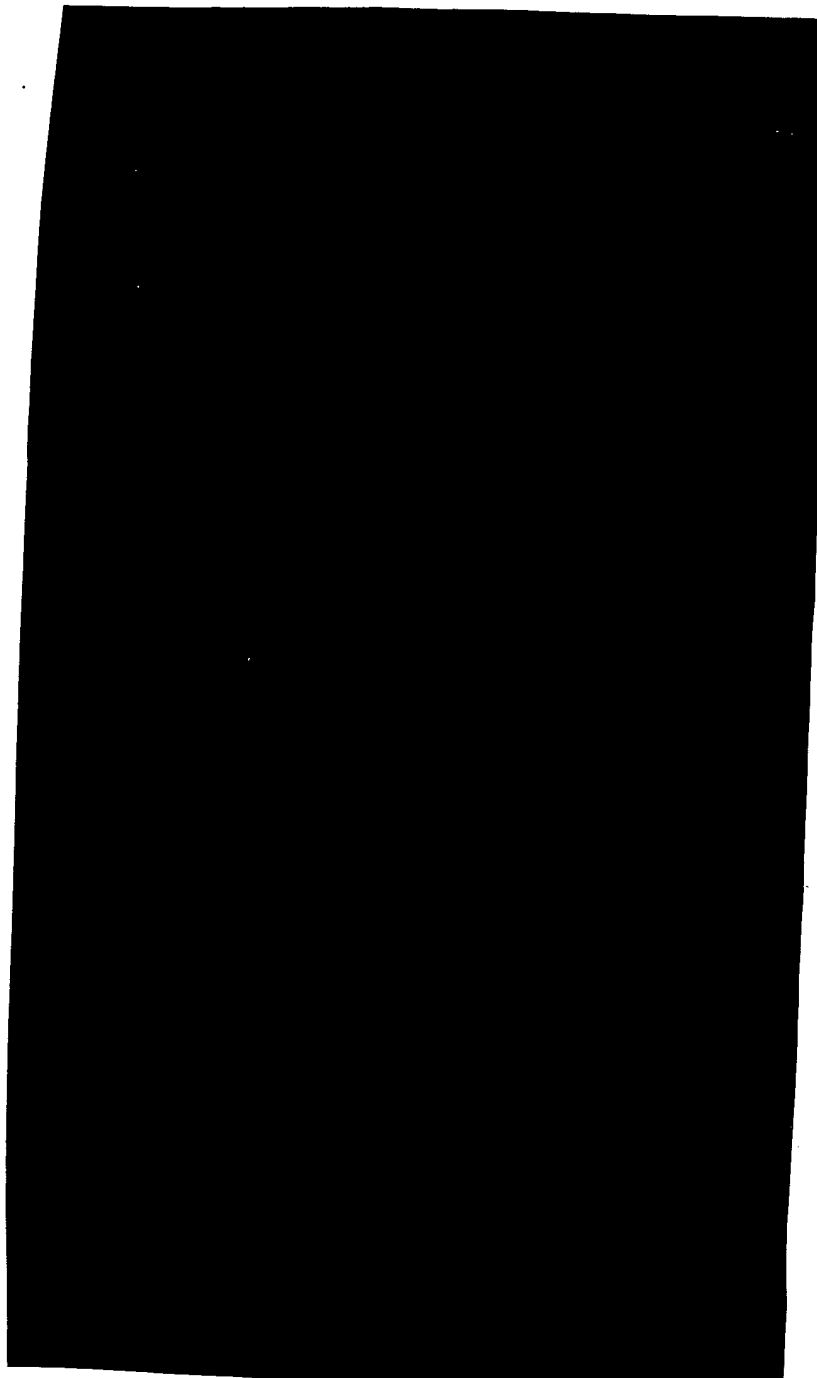
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VENEZUELA: New Economic Team

President Lusinchi's appointment of well-respected economic advisers Hector Hurtado and Mauricio Garcia to head the Finance Ministry and the Central Bank may lead to much-needed policy reforms and pave the way for new foreign loans. Former Finance Minister Azpurua resigned last week after he failed to secure foreign financing that Lusinchi and ruling-party officials had said was a necessary accompaniment to the \$12 billion public debt rescheduling agreement that Venezuela signed last month. ~~_____~~

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~~_____~~ The changes in economic leadership reflect growing concern within the Lusinchi administration about Venezuela's deteriorating economic conditions; the annual rate of inflation hit 26 percent in August, as compared with 13 percent last December, while oil revenues will probably increase by only 20 percent over last year's levels. Hurtado, who has broad political support, may be able to persuade the government to approve a highly controversial increase in domestic interest rates to improve Caracas's financing prospects with major lenders. ~~_____~~

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COSTA RICA: Progress in IMF Negotiations

The IMF is close to agreement on a \$65 million loan and standby program for Costa Rica, but an accord probably will not deflect mounting domestic criticism of President Arias's handling of the economy. According to the IMF, the agreement has tough economic guidelines, and approval is contingent on Costa Rica making \$15 million in delinquent interest payments to commercial banks. Failure to pass a controversial tax package will jeopardize Costa Rica's ability to meet the standby program's December economic targets and would delay release of funds. ~~_____~~

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~~_____~~ The press is criticizing Arias for pursuing tax increases to satisfy the IMF while neglecting promised social programs. ~~_____~~

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~~_____~~ Opposition politicians oppose austerity measures that do not reduce the public budget, and they are likely to block or delay tax legislation. In addition, vocal labor factions and business groups remain critical of Arias's failure to improve education and health services and build more housing. If the IMF accord is approved, however, private creditors and the Paris Club probably will renegotiate, and the debt rescheduling and new loans eventually would give Arias greater flexibility to stimulate growth and meet his social program obligations. ~~_____~~

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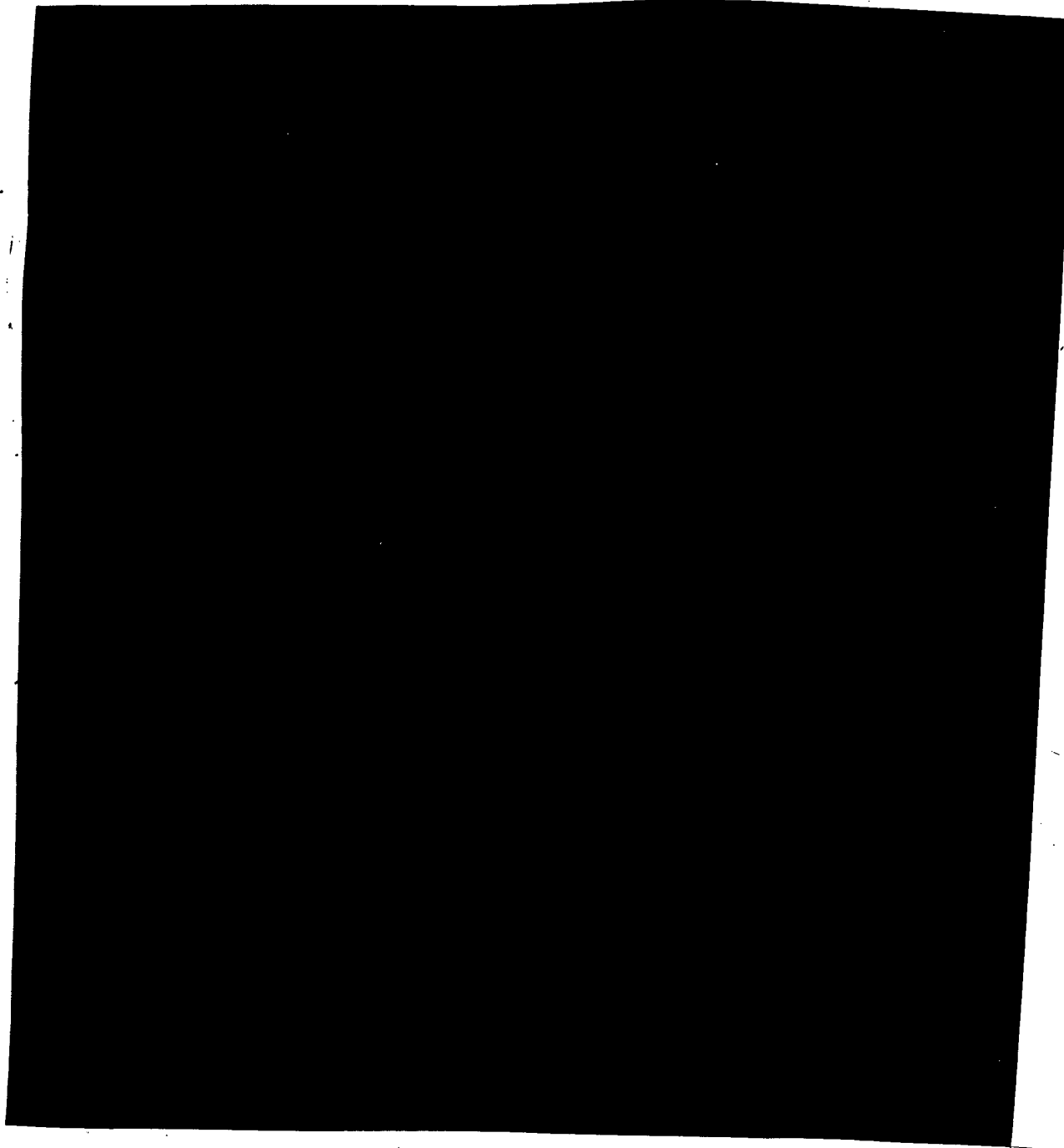
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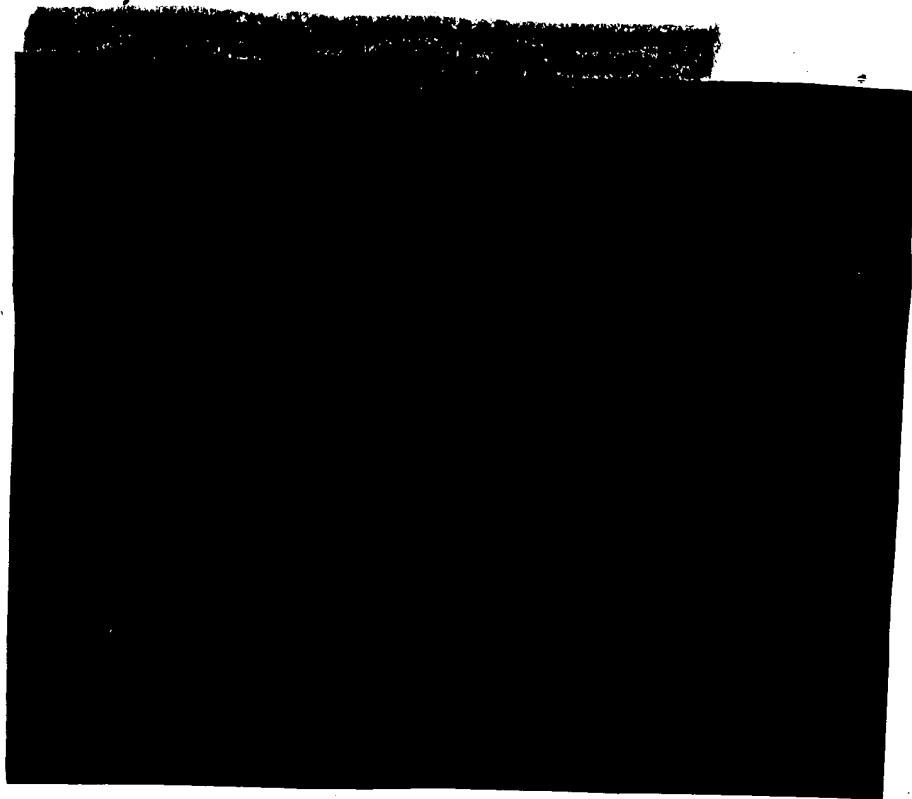
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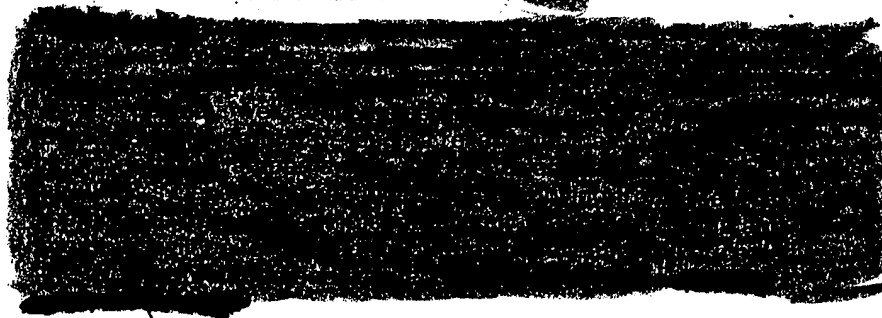
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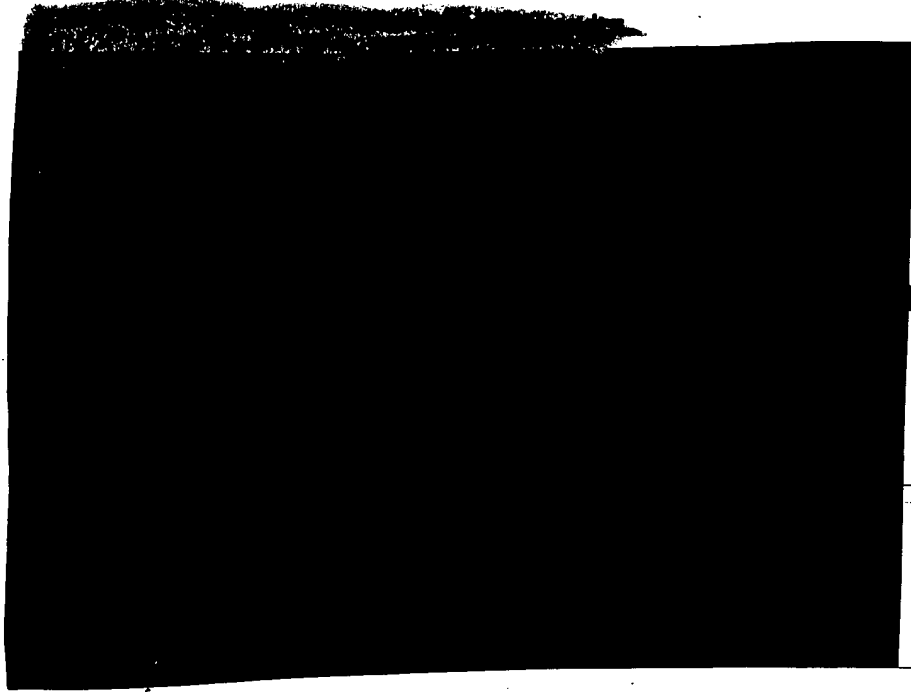
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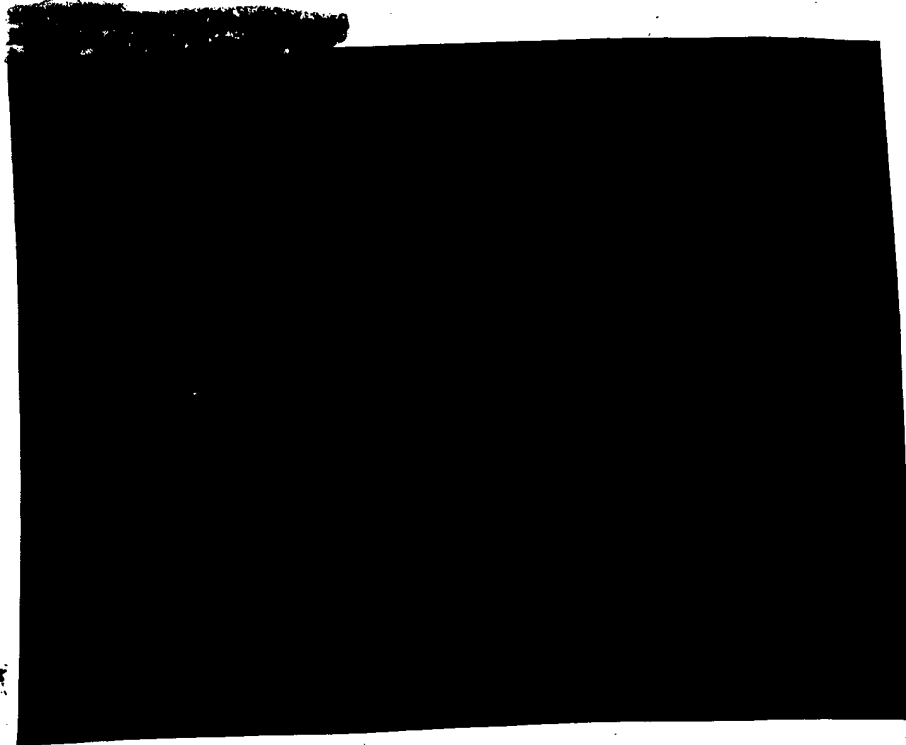
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THAILAND: Air Force Delays F-16 Purchase

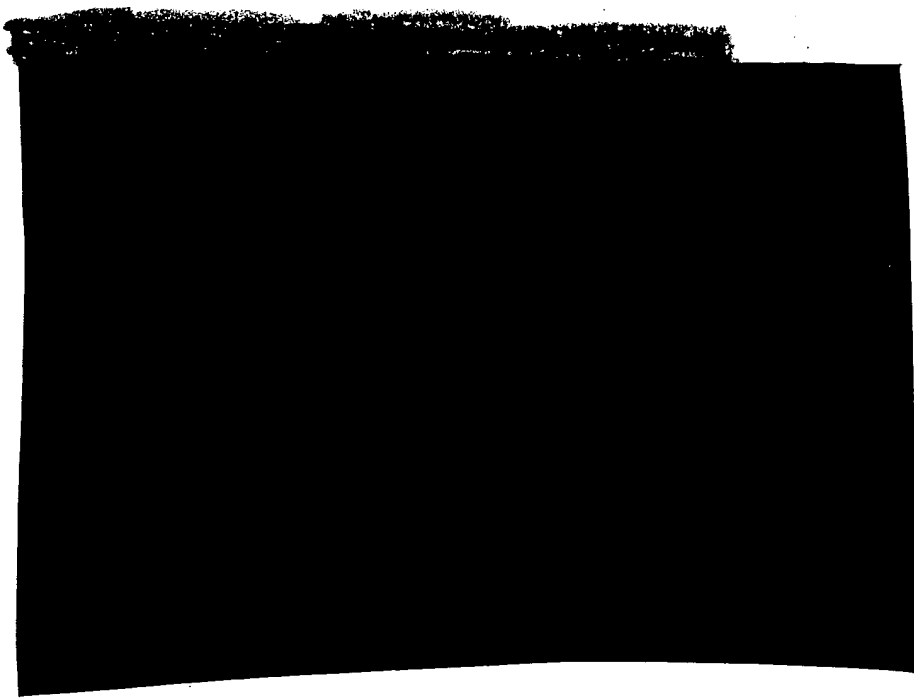
Newly appointed Thai Air Force Chief, Air Marshal Voranat, has deferred for at least a year plans to purchase six additional US F-16 fighter aircraft because of budgetary constraints. The decision, which has been conveyed to US officials, reverses a decision made late last month by former Air Force commander Praphan to acquire the additional aircraft. The Air Force budget is already severely restricted by the initial purchase of 12 aircraft, the first of which will be delivered next year. ~~_____~~

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~~_____~~ The reversal follows Voranat's controversial appointment and will spark renewed unrest among supporters of Praphan—who occupy most key Air Force positions—and will complicate Voranat's efforts to consolidate his position. Critics of Voranat have already expressed their anger that Prime Minister Prem ignored Praphan's chosen successor in favor of Voranat. They refused to report for duty the day after the announcement earlier this month and have spread coup rumors. ~~_____~~

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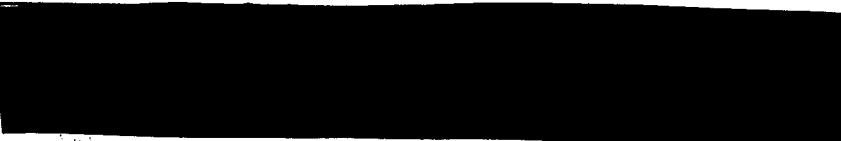
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In Brief

Americas

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- **El Salvador's** unofficial Human Rights Commission blames rightwing death squads, government security services for its leader's murder yesterday ... charges unsupported ... more likely committed by independent rightists or in vendetta by left.
- **Nicaraguan** Indian rebel leaders truce negotiations called off because of new Sandinista conditions ... regime insisting Indians accept amnesty first to avoid setting precedent for main insurgent group ... preliminary talks apparently continuing.

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Middle East

- **Egypt's** relations with **USSR** continue slow thaw ... Soviets allowed to reopen consulate in Alexandria, ... Moscow eager to foster more cooperation ... Cairo will proceed cautiously to avoid damaging ties to Washington.
- **Israeli** Foreign Minister Peres revealed secret meeting with **Ethiopian** counterpart while in New York recently on UN business ... Tel Aviv seeks deeper ties, emigration of Ethiopian Jews ... premature publicity may slow efforts.

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Europe

- West Berlin mayor Diepgen held first-ever meeting with East Berlin counterpart last Wednesday ... trying to become major force in intra-German relations.
- Shevardnadze will brief **Warsaw Pact** Foreign Ministers in Prague this week on latest round of **US-Soviet** talks ... regularly scheduled meeting ... session will endorse Moscow's arms control positions ... no major new initiatives expected.

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East Asia

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- **South Korean** opposition leader Kim Dae Jung to form new party next week, base for presidential bid ... hurts credibility with Koreans who want single candidate ... may hope to force rival Kim Young Sam to concede.

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Special Analysis

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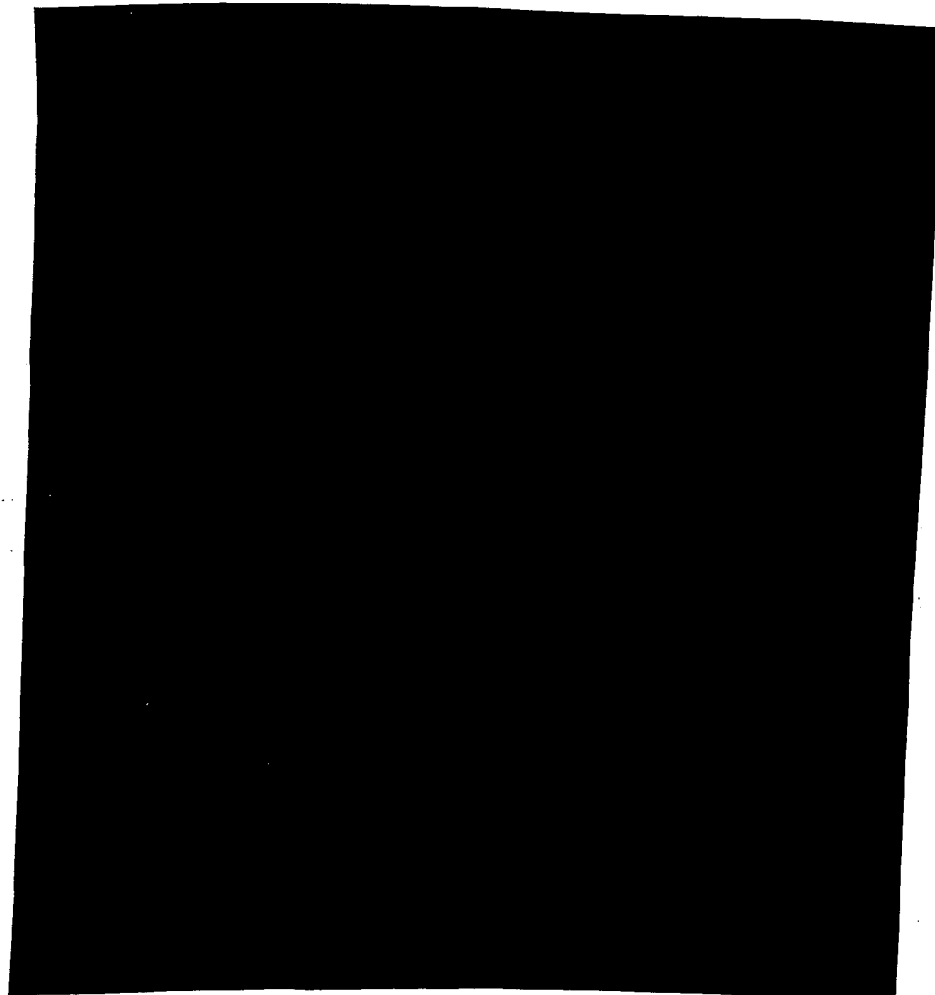
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Special Analysis

MEXICO:

Challenges for Salinas

Mexico's ruling-party presidential nominee, Carlos Salinas, inherits a number of domestic economic problems that President de la Madrid has failed to solve—slow growth, high inflation, and a large budget deficit. Boosting economic growth and slowing inflation will be Salinas's most pressing economic concerns when he assumes office in December 1988. However, key party factions are dissatisfied with the selection of Salinas, who may have to compromise on his economic agenda to ensure a sweeping victory for his party.

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As the architect of Mexico's economic policies while Budget Minister, Salinas is familiar with his country's problems and well suited to handle them. A pragmatic economist, he is aware that some economic strategies—such as massive federal spending, a large government role in the economy, and restrictive trade and investment laws—may no longer be tenable. He now claims to favor budget discipline and has vowed to promote investment projects over more politically popular programs.

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At the same time, however, some of Salinas's economic preferences may cause problems. As Budget Minister, he was willing to accept high inflation as the price for economic growth.

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His preference for continued state control over key sectors will lead him to streamline inefficient state-owned enterprises rather than to sell or close them. And the tough stance he took on debt issues as Budget Minister are sure to carry over if talks with creditors stall when Mexico seeks new foreign loans, perhaps as early as 1989.

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Concessions to Interest Groups

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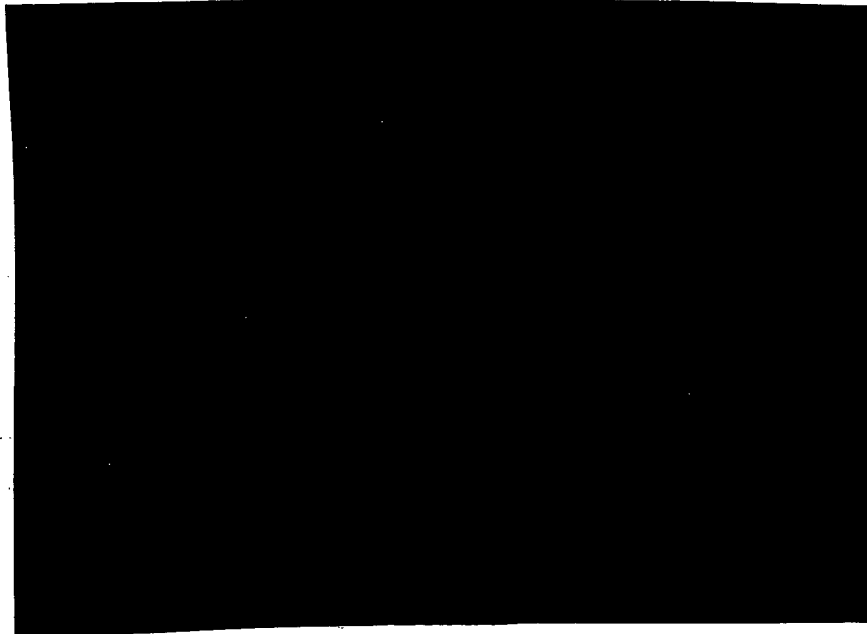
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Campaign Prospects

Salinas faces a tough campaign as he strives to build a political base for himself and ensure a strong showing for his party. Historically, the party has proved adept at increasing its candidate's appeal, but the party's fragmentation will test its capabilities. [REDACTED]

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De la Madrid's support and his control of the government's purse strings are the candidate's strongest political assets. De la Madrid, however, intent on being remembered for salvaging the economy, is refraining from economic excesses for the remainder of his term and appears reluctant to increase spending. Nevertheless, he will use whatever resources are necessary to strengthen Salinas and increase support for the party. [REDACTED]

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